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Tailor-made cooperation? Armenia's new partnership agreement with the EU

Benyamin Poghosyan

At the Eastern Partnership (EaP) Summit on 24 November 2017, Armenia and the European Union (EU) signed a new Comprehensive and Enhanced Partnership Agreement (CEPA). It represents a second chance for Armenia to deepen ties with the EU, after the four-year relationship limbo that followed Armenia's surprise rejection of an Association Agreement in 2013.

The new agreement is the first example of the EU's new differentiated approach towards the EaP countries, which takes into consideration the constraints and specific conditions unique to each of them. While the new agreement excludes free trade provisions, which would contradict Armenia's commitment to the Russia-led Eurasian Economic Union (EAEU), it creates opportunities to improve the investment climate, strengthen sectoral cooperation and help diversify Armenia's foreign policy and economy. Success will, nevertheless, depend on the political will of Armenia's leadership to implement the agreement and turn reform commitments into tangible progress, including steps to improve the lives of citizens.

BACKGROUND – EVOLUTION OF ARMENIA-EU RELATIONS

Armenia-EU cooperation began in the mid-1990s. While a Partnership and Cooperation Agreement (PCA) came into force in 1999, bilateral relations were rather modest until the launch of the European Neighbourhood Policy (ENP) in 2004 and the Eastern Partnership (EaP) in 2009.

The foreign policy dimension of the ENP and EaP was instrumental in Armenia's decision to join the initiatives. The Nagorno-Karabakh conflict between Armenia and Azerbaijan, as well as the economic blockade imposed on Armenia by Azerbaijan and Turkey in the early 1990s, resulted in Armenia anchoring itself closely to Russia politically, economically and militarily. To avoid being totally dominated by Russia, Armenia looked for ways to cooperate with other partners, including the Euro-Atlantic institutions, to develop and maintain a multi-vector foreign policy approach. Joining ENP/EaP opened the door for deeper political and economic cooperation with the EU.

Domestically, this deeper cooperation with the EU was viewed by Armenian leaders not only as a way to demonstrate the country's independence from Russia, but also as a source of additional financial and technical support from the EU. Considering the significant pressure the Armenian economy came under following the 2008 global financial crisis, this was very much needed. The success stories of former Warsaw Pact member states were also seen as good examples of how close relations with the EU could boost the economy. Furthermore, the EU maintained a highly positive image within Armenian society as a values-based entity.

Negotiations for an Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) began in July 2010. The agreement was expected to be signed at the Vilnius EaP summit in November 2013. During a visit to Moscow in September, however, President Serzh Sargsyan announced that Armenia would be joining the Russian-led EAEU instead. Coming after more than three years of negotiations, such a volte-face was a bolt from the blue, which left both the EU and a large part of Armenian society stunned.

Two developments in particular led to this U-turn. First, between 2010 and 2013, the external security environment significantly changed. Vladimir Putin's September 2011 decision to run for a third presidential term,

along with the fraudulent December 2011 Russian Duma elections – which resulted in mass protests – were perceived by the West, and in particular the United States (US), as a clear sign of growing authoritarianism in Russia. Animosity between the US and Russia did not bode well for Armenia's efforts to pursue a multi-vector foreign policy.

Second, Russia became increasingly belligerent about the EaP. Moscow saw the policy as a geopolitical project aimed at influencing the post-Soviet space at Russia's expense. Armenia found itself under mounting pressure from Moscow to abandon the talks. While all EaP states were confronted with the interference, Russian influence in Armenia is substantial. Russian companies enjoy monopolistic positions in the communication, transportation, and energy sectors. Russia also remains the most common destination for migrant workers, and the remittances they send back home are vital for the Armenian economy. Russia's 102nd military base is headquartered in Gyumri. Armenia is a member of the Collective Security Treaty Organisation (CSTO) and the country's national security continues to depend heavily on the Russian military. So, while Russia cannot match the opportunities for economic development and modernisation that the EU has to offer, these benefits become unimportant if Armenia cannot deal with challenges to its own security.

Putin's initiative to transform the Customs Union of Russia, Belarus and Kazakhstan into the EAEU was also an important factor as Moscow expected Armenia to demonstrate its loyalty by getting on board, despite significant domestic opposition to this step. While Yerevan emphasised that it was ready to sign the AA without the DCFTA, the EU rejected this option emphasising that the two agreements were inextricably linked.

STATE OF PLAY – ARMENIA'S SECOND CHANCE

The U-turn resulted in a one-year 'strategic pause' in relations. The EU and Armenia formally re-engaged in October 2014 with the launch of a so-called 'scoping exercise'. Armenia was eager to have a new agreement, not least to demonstrate it was not totally under the control of Moscow. It made clear, however, that a new agreement should not contradict the country's obligations within the EAEU but rather complement it. This was in line with the ENP review process, which emphasised differentiation and greater mutual ownership.

Negotiations on CEPA were completed in March 2017, and the agreement was signed at the November 2017 EaP summit. It must now be ratified by the European Parliament and member state parliaments along with the Armenian parliament. CEPA can be seen as a compromise between the old AA and Armenia's new commitments in the EAEU. Despite fears that Russia may overturn the process for a second time, Moscow remained silent. Given Armenia's membership in the EAEU, CEPA cannot seriously threaten Russia's privileged position in Armenia's economy or its geopolitical weight in the region.

Politically, both Yerevan and the EU win, in having reached a middle ground that combines Armenia's EAEU membership with an upgraded agreement with the EU. The signature of CEPA is perceived as a success story for the ENP's new, differentiation-based approach. CEPA retains a considerable amount of content from the previous AA, particularly in the areas of political dialogue, justice and freedom, and even security. The agreement also includes a substantial amount of the *EU acquis* with legally binding provisions across a range of sectoral areas of cooperation including transport, energy, banking and insurance sectors, agriculture and mining. While the agreement does not contain any free trade arrangements, as that is now beyond Armenia's jurisdiction and within that of the EAEU, it does not mean that Armenia and the EU will not be able to increase economic cooperation. The EU's technical and financial assistance will increase the capabilities of Armenian companies, creating the necessary conditions to increase its exports to the EU market. EU support is also essential in reforming Armenia's economy, especially regarding policies to promote free and fair competition or combat monopolies and corruption. The agreement also offers instruments to support and develop small and medium-sized industries.

In addition to CEPA, cooperation is taking place in other areas too. In January 2017, Armenia hosted its first ever Common Security and Defence Policy (CSDP) high-level conference for EaP. The country has also joined the Horizon 2020 and COSME (Competitiveness of small and medium-sized enterprises) programmes, while negotiations to join the Creative Europe (the European Commission's framework programme for support to the culture and audiovisual sectors) and the Common Aviation Area Agreement have been concluded. The EU has provided EUR 20 million of assistance for the development of agriculture in Armenia through the European Neighbourhood and Rural Communities Development Programme (ENPARD). These programmes have started to bring about some tangible results on the ground, which can be used to raise the awareness about the benefits of deepening relations with the EU. Yerevan is set to start negotiations for visa liberalisation with the EU during 2018, which will require deep reform in a number of sectors, including anti-corruption measures.

A real opportunity to diversify?

From an Armenian perspective, CEPA represents a new opportunity to reinvigorate its desired multi-vector foreign policy – something that gained momentum following the April 2016 'four-day war' in Nagorno-Karabakh. Armenia resented Moscow's ambiguous reaction to the 'four-day war' as well as its signing of an arms agreement worth some USD 4 billion with Azerbaijan prior to April escalation. Despite being Armenia's strategic ally, Russia did not criticise Azerbaijan during the April events. Moreover, high-level Russian officials, including Deputy Prime Minister Dmitri Rogozin, reiterated that Russia would continue to provide Azerbaijan with modern assault weaponry. Armenians woke up to the fact that the country's strategic alliance with Russia and membership in the CSTO and EAEU did not guarantee the country's security. In its efforts to bring Azerbaijan into what Russia defines as its sphere of influence, Moscow is ready to use the Karabakh conflict as a bargaining chip with Baku.

While negotiations on CEPA were launched well before the April 2016 escalation, this development played an important role in changing the public perception of Russia as a reliable security partner. CEPA does not provide Armenia with any security guarantees – and will hardly alter the balance of power in Armenian foreign policy. However, it is viewed as an important step in deepening relations with Euro-Atlantic institutions.

Armenia's EAEU membership has also proven to be disappointing in political and economic terms. What is seen by Yerevan as an explicit pro-Azerbaijani policy of EAEU members Belarus and Kazakhstan has damaged the image of the EAEU within Armenian society. For example, Kazakhstan's initiative to postpone the Summit of EAEU prime ministers, scheduled to be held in Yerevan immediately after the April escalation, was seen as a clear sign of Kazakh sympathy for Azerbaijan. The comments of Belarus President Alexander Lukashenko during his October 2017 meeting with Azerbaijan's minister of defence, that "Belarus will continue its military cooperation with Azerbaijan and is not going to explain the nature of bilateral relations to anyone" were not well received in Yerevan.

Despite the Armenian authorities claiming that membership of the EAEU would boost Russian investments, the opposite happened as a result of Russia's growing economic difficulties. Moscow not only reduced both imports from Armenia and the number of sectors open to Armenian investment, but it also cut the number of Armenian workers. In 2015-16, Armenia witnessed slow economic growth, one of the reasons behind the prime minister's resignation in September 2016. The new government was not able, however, to trigger a quick economic recovery either. The protests in the summer of 2015, prompted by the ineffective management and corruption in a Russian-owned electricity monopoly – more commonly known as Electric Yerevan – underscored broader economic stagnation and worsening social conditions. Another problematic issue for Yerevan is the higher custom duties in EAEU for a number of goods. While joining the EAEU in 2015, Armenia negotiated the right to temporarily keep existing custom duties for some goods. However, since January 2018 Armenia has had to raise custom duties to bring them in accordance with EAEU requirements, which may trigger inflation and bring additional pressure on Armenia's economy.

From the point of view of the average Armenian citizen, EAEU membership has provided neither political nor economic benefits. Meanwhile, despite the lack of a DCFTA, deeper ties with the EU via greater sectoral cooperation, including in the tourism, aviation and energy sectors, are expected to improve the economic conditions in the country. In 2016, the EU accounted for approximately 24% of Armenia's overall trade, just behind Russia (27%). Exports to the EU amounted to EUR 335 million whereas imports from the EU were worth EUR 601 million. Yerevan also hopes that CEPA will help create a better investment climate.

Yerevan would like to benefit from the country's position as both an EAEU member state and an EU partner with access to the Generalised Scheme of Preferences (GSP +), which enable Armenia to export goods under 6,400 tariff lines to the EU with zero or reduced tariffs. Another opportunity lies with the negotiations between Iran and the EAEU for a free trade agreement, which are expected to end in early 2018. Armenia's goal is to make the country a launch-pad for European companies to enter Iranian markets using the preferences of the EAEU-Iran free trade agreement and for Iranian companies to enter European markets using GSP+. The opening of the Meghri free economic zone near the Armenia-Iran border in December 2017 is a step in that direction. This issue was among the key points of discussion during the visit of Prime Minister Karen Karapetyan to Tehran in October 2017.

PROSPECTS – IMPLEMENTATION WILL BE KEY

CEPA can be seen as an important milestone in Armenia-EU relations. If properly implemented, CEPA offers tools and money to facilitate reform across different sectors in Armenia. The most likely and desirable short-term outcomes of CEPA include the possibility to start a visa liberalisation dialogue, which may lead to visa-free travel for Armenian citizens for up to two years. Long-term benefits include the possibility of economic reforms for which the EU offers both financial aid and expertise. Full implementation of CEPA would mean a profound

systemic change in Armenia as it could eventually help to breakdown the oligarchic power structure that is currently in place.

The realisation of such benefits remains, however, far from assured. The implementation of the agreement will require significant political will from the Armenian government. Armenia has a very patchy track record when it comes to reform. More efforts will have to be made to strengthen the independence of the judiciary, to fight against corruption, and to ensure free competition in an economy that has been historically controlled by powerful oligarchs or Moscow. While all political parties represented in the Armenian Parliament support CEPA and emphasise its important role in moving down the path of real structural reform, history has shown that words are seldom transformed into action.

Key role of civil society and the EU

The effective implementation of CEPA depends on the engagement of the local civil society and on the willingness of the EU to link assistance to reforms. In this respect, the role of Armenian civil society as a watchdog will be pivotal to exert pressure on the government if the latter breaks its commitments. For Armenia's civil society, the EU is the only driver of the country's modernisation. In recent years, Armenian civil society demonstrated its ability to organise protest movements and successfully press the government, including against its attempts to raise public transport fares in 2013 and electricity prices in 2015. In both instances, young people were the main driving force behind the protests, and the government had to reconsider its position.

Much will depend on the EU too. The Union will need to continue to empower Armenia's civil society for the latter to contribute to sound policymaking, improve accountability and monitor CEPA's implementation. At the same time, the EU should make greater efforts to communicate the benefits of cooperation with the EU as widely as possible to the Armenian people, in part to counter Russian-led disinformation campaigns. For example, several Armenian NGOs, such as Integration and Development or Eurasian Expert Club, are actively supporting EAEU membership. They organise roundtable discussions, workshops and send out press briefings presenting the benefits of Eurasian integration for Armenia.

Armenia's public opinion is divided on the international positioning of the country. A recent poll in Armenia has shown that the number of EU supporters has grown. According to the results of a survey 'Towards North or West', conducted in May 2017 by the Leading Group of Humanitarian Research NGO in cooperation with Helsinki Citizens' Assembly Vanadzor Office, 33% of participants were in favour of Armenia joining the EU, and 32% were in favour of EAEU membership. In this respect, the launch of negotiations for visa liberalisation may play a significant role in boosting pro-EU sentiments among the population.

Furthermore, the EU should make it clear that financial assistance is conditional on implementing real reforms. Yerevan received EUR 140-170 million from the European Neighbourhood instrument in 2014-17. Given the economic troubles and the country's growing national debt (approximately USD 6.5 billion in 2017), securing continued EU financial assistance for the coming years is crucial for the government.

The Armenian authorities should not be allowed to take EU support for granted. Moldova's and Ukraine's experience with the EU should serve as an example for Armenia. In October 2017, the EU decided to postpone the transfer of a final tranche of loans (worth EUR 28 million) in support of the reform of Moldova's justice system, due to the failure of national authorities to fulfil the bloc's conditions.

Both Armenia and the EU would benefit from closer cooperation but without hard work success is not guaranteed. The CEPA is the first agreement signed by the EU with an EAEU and CSTO member state. It will showcase the EU's commitment to developing tailor-made relations with countries that have different political conditions and geopolitical orientations. It will also show that Armenia's leadership is genuinely dedicated to implementing reform. Given the strategic stalemate between the EU and Russia, the agreement with Armenia may create a basis for the EU to explore possibilities of furthering cooperation with other EAEU and/or CSTO member states. Finally, it will serve as evidence of the EU's claim that it does not pursue a "zero-sum policy" in the post-Soviet space.

Benyamin Poghosyan, PhD, Executive Director, Political Science Association of Armenia.

The views expressed in this publication are the sole responsibility of the author.

European Policy Centre ■ 14-16 rue du Trône, 1000 Brussels, Belgium
Tel: +32 (0)2 231 03 40 ■ Email: info@epc.eu ■ Twitter: [@epc_eu](https://twitter.com/epc_eu) ■ Website: www.epc.eu



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